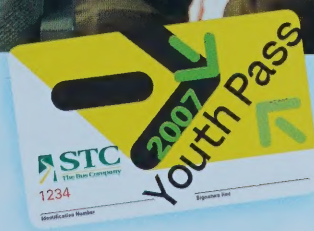


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Saskatchewan Transportation
Company



2007 Annual Report



Uniquely Serving Saskatchewan

Corporate Mandate

The Saskatchewan Transportation Company (STC) is a Crown corporation of the province of Saskatchewan. It was established by Government Order in Council in 1946. Its operations are governed by its Board of Directors, under the authority of *The Crown Corporations Act, 1993*.

STC is a provincial coach company which provides safe, affordable and accessible bus passenger and freight service to Saskatchewan communities.

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Letter of Transmittal



Regina, Saskatchewan
March 31, 2008

To His Honour
The Honourable Dr. Gordon L. Barnhart
Lieutenant Governor of the
Province of Saskatchewan

Sir:

I have the honour to submit herewith the annual report of the Saskatchewan Transportation Company (STC) for the year ended December 31, 2007, in accordance with *The Crown Corporations Act, 1993*. The financial statements are in the form approved by the Treasury Board and have been duly certified by the Corporation's auditors.

I have the honour to be, Sir,
Your obedient servant,

A handwritten signature in black ink that reads "Ken Cheveldayoff". The signature is written in a cursive, flowing style.

Ken Cheveldayoff,
Minister of Crown Corporations

Governance, Compliance and Accountability

A board of a Crown corporation of the Government of Saskatchewan owes a duty to taxpayers to demonstrate that the company is open, accountable, and properly managed.

To that end, this Annual Report follows “best practices” as outlined by such agencies as the Conference Board of Canada and the Toronto Stock Exchange in disclosing relevant information. This report meets or exceeds all the requirements for disclosure as set out for Saskatchewan Crown corporations by the Crown Investments Corporation of Saskatchewan.

In this section, the responsibilities of the Board of Directors are laid out in accordance with the “best practices” for corporate governance, as developed by the Canadian Securities Administrators.

Board of Directors

Unrelated Members: Holly Ann Knott (Chair), Wally Sotski (Vice Chair), Cecile DeBray, Sarah Gauthier, Garry Pearce, Deb Schmidt, Wayne Timoffee, Shauna Young

Related Members: Leo Weaver

Note: Janet Folk had been board chair, but retired from the board in April 2007.

Governance, Compliance and Accountability

Objectives and Principal Duties

1. The function of the Board of Directors is to act as stewards of the corporation. The Board has a statutory authority and obligation to manage the affairs and business of the corporation. While the fundamental objective of the Board is to act in the best interests of the corporation, the Board has a responsibility to ensure congruence between shareholder expectations, corporate plans, and management performance.
2. In discharging its obligations, the Board's principal duties are:
 - a) to provide leadership in setting the corporation's long range strategic direction, and to approve the corporation's overall strategic plan, operating goals, operating budget, performance indicators and the business plans established to achieve them;
 - b) to participate with management in identifying the principal risks of the business in which the corporation is engaged, to achieve a proper balance between risks incurred and potential returns to oversee the implementation of appropriate systems to manage the risks;
 - c) to appoint, monitor and evaluate the performance of the President and CEO, taking appropriate action as warranted, and to provide for effective succession planning;
 - d) to adopt policies and processes to enable effective communication with the shareholder, stakeholders, and the public;
 - e) to ensure the integrity of the corporation's internal control and management information systems; and
 - f) to develop practices to ensure that the Board functions independently of management.

Legal and Compliance Responsibilities

1. The Board has a responsibility to see that procedures are in place to ensure statutory responsibilities are met, that an effective corporate compliance program has been established, and that corporate documents and records are properly prepared, approved, and maintained.

Audit and Finance Committee

1. Composition

The committee was made up of four Directors of the corporation, with Garry Pearce as Chair. The other members were Holly Ann Knott, Sarah Gauthier and Wally Sotski. The committee was appointed annually by a resolution of the Board. No members of this committee were related Directors.

2. Objectives

The committee shall be advisory to the Board and in such capacity shall:

- a. oversee the financial management of STC to ensure the integrity of internal financial processes;
- b. provide relevant and timely financial information to the Board; and
- c. oversee the appointment of the external auditor and ensure proper follow up of audit results.

Governance and Corporate Responsibility Committee

1. Composition

The committee was made up of six Directors of the corporation, with Wayne Timoffee as Chair. The other members are Cecile DeBray, Holly Ann Knott, Deb Schmidt, Leo Weaver and Shauna Young. The committee is appointed annually by a resolution of the Board. One member of this committee was a related Director.

2. Objectives

The committee shall be advisory to the Board and in such capacity shall:

- a. be responsible for, and report to the Board concerning the corporate governance processes of the Board, and the strategic planning processes of the corporation;
- b. oversee the corporation's human resource strategies, programs and practices; and
- c. ensure the corporation is proactive in addressing safety, health and environmental issues and is in compliance with all statutory requirements.

Corporate Governance Guidelines

	Already In Compliance	Change Required for Compliance	No Change In Practice – Additional Disclosure Required
Composition of the Board			
The majority of the board is composed of independent directors.	X		
The Chair of the board is an independent director. If this is not appropriate, an independent director has been appointed to act as lead director and acts as the effective leader of the board to allow the board to carry out its duties.	X		
Meetings of the Board			
The independent directors hold regularly scheduled meetings without non-independent directors and members of management being in attendance.		X (not all meetings)	
Board Mandate			
The board has a written mandate outlining its responsibilities.	X		
<i>This mandate includes responsibility for the following items:</i>			
Satisfying itself as to the integrity of the CEO and other executive officers;	X		
Ensuring that the CEO and other executive officers create and cultivate a culture of integrity throughout the organization;	X		
Adopting a strategic planning process which includes the risks and opportunities facing the organization;	X		
Annual approval of the strategic plan;	X		
Identification of the principal risks facing the business;	X		
Ensuring the implementation of systems to manage these risks;	X		
Succession planning;	X		
Adopting an effective communications policy (guidance per NP51-201 Disclosure Standards);	X		
The internal control and management information systems;	X		
Developing the organization's approach to corporate governance (i.e. set of principles and guidelines);	X		
Establishing measures by which stakeholders can communicate with the board; and	X		
Establishing the expectations and responsibilities of directors.	X		
Position Descriptions			
<i>The board has developed clear position descriptions of the following:</i>			
Chair of the board;	X		
Chair of each board committee; and	X		
The CEO.	X		
The board develops/approves the corporate goals and objectives that the CEO is responsible for meeting.	X		
Orientation and Continuing Education			
<i>The board ensures that all new directors receive a comprehensive orientation which encompasses the following items:</i>			
The role of the board and its committees;	X		
The contribution (in terms of time and resources) each individual director is expected to make; and	X		
The nature and operation of the business.	X		
The board ensures that continuing education opportunities are provided to allow all directors to maintain and enhance their skills and abilities as directors as well as ensuring that their knowledge and understanding of the business remains current.	X		

Corporate Governance Guidelines

	Already In Compliance	Change Required for Compliance	No Change In Practice – Additional Disclosure Required
Code of Business Conduct and Ethics			
The board has adopted a written code of business conduct and ethics which is designed to promote integrity and to deter wrongdoing, and is applicable to all directors, officers and employees of the organization.	X		
<i>The code specifically addressed the following issues:</i>			
All conflicts of interest;	X		
Protection and proper use of corporate assets and opportunities;	X		
Confidentiality of corporate information;	X		
Fair dealing practices (with security holders, customers, suppliers, competitors and employees);	X		
Compliance with legal and regulatory matters; and	X		
Reporting of illegal or unethical behaviour.	X		
The board monitors compliance with the code.	X		
Waivers from the code are solely granted by the board or a board committee.	X		
Any material departure from the code is considered to be a "material change" within the meaning of National Instrument 51-102 Continuous Disclosure Obligations and is treated as required by this National Instrument.	X		
Nomination of Directors			
The board has appointed a Nominating Committee which is composed entirely of independent directors.	X		
The Nominating Committee has a written charter.	X		
<i>This charter clearly established the following:</i>			
The committee's purpose;	X		
Requirements as to member qualification;	X		
Procedures for member appointment and removal;	X		
Structure of the committee; and	X		
Operation of the committee (including authority to delegate to individual members or subcommittees).	X		
The Nominating Committee has been given the authority to engage and compensate any outside advisor that it determines to be necessary to permit it to carry out its duties.	X		
Prior to nominating or appointing any individuals as directors, the board has adopted processes to consider what competencies and skills the board should possess as a whole, and to assess what competencies and skills each existing director possesses.	X		
Prior to recommending new directors to the board, the Nominating Committee considers what competencies and skills the board considers necessary for the board to possess as a whole; the Nominating Committee assesses what competencies and skills the board considers each existing director to possess; and the nominating committee considers the competencies and skills each new nominee will bring to the boardroom.	X		
Attention is given to the personality and other skills of each director, as these contribute to the determination of the boardroom dynamic.	X		
The board considers what is the appropriate size of the board, with a view of facilitating effective decision making.	X		

Corporate Governance Guidelines

	Already In Compliance	Change Required for Compliance	No Change In Practice – Additional Disclosure Required
Compensation			
The board has appointed a Compensation Committee which is composed entirely of independent directors.	X		
The Compensation Committee has a written charter.	X		
<i>This charter clearly establishes the following:</i>			
The committee's purpose;	X		
The committee's responsibilities;	X		
Requirements as to member qualification;	X		
Procedures for member appointment and removal;	X		
Structure of the committee;	X		
Operation of the committee (including authority to delegate to individual members or subcommittee); and	X		
Manner of reporting to the board.	X		
The Compensation Committee has been given the authority to engage and compensate any outside advisor that it determines to be necessary to permit it to carry out its duties.	X		
<i>The Compensation Committee has assumed responsibility for the following issues:</i>			
The review and approval of corporate goals and objectives relevant to CEO compensation;	X		
The evaluation of the CEO's performance in respect of these goals/objectives;	X		
The determination and recommendation to the board of the CEO's compensation level;	X		
The recommendation to the board of non-CEO officer and director compensation, incentive plans and equity based plans; and	X		
The review of executive compensation disclosure before the issuer publicly discloses this information.	X		
Regular Board Assessments			
The board is regularly assessed regarding its effectiveness and contribution. This assessment considers the board's mandate.	X		
Each board committee is regularly assessed regarding its effectiveness and contribution. This assessment considers the committee's charter.	X		
Each individual director is regularly assessed regarding his or her effectiveness and contribution. This assessment considers the individual's position description(s) and competencies and skills they are expected to bring to the board.	X		



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Report of the President



Ray Clayton, President and CEO

STC provides direct passenger and freight service to 278 communities in Saskatchewan. Considering numerous interline and other contractual arrangements that STC has with other passenger and/or freight carriers through which indirect services are provided, more than a hundred additional communities are served.

The heaviest concentration of service provided by STC is along the Regina-Saskatoon-Prince Albert corridor. About 18 percent of the total 3.1 million miles traveled annually by STC buses, and about 35 percent of the total freight and passenger services provided by the company are along this corridor. The bulk of STC services, however, are provided along the numerous highways connecting our smaller cities, towns and villages. About 85 percent of the bus mileage and 65 percent of both the passenger and freight business relates to what might be considered "rural Saskatchewan".

There are many elements to successfully providing passenger and freight services to the people of the province. I would like to acknowledge one of those elements, namely our network of 191 agents who provide service on a commission basis. These are the people who open their places of business to sell tickets and make out way-bills for people using our services in scores of communities across the province. Many of the agents in the smaller communities have relatively low volumes of passenger or freight business, and their commissions are correspondingly very modest. These agents typically do not act as STC agents because of the financial return they receive. Rather, they want to be of service to their friends and neighbours in the community. Without their dedication to serving one another, we would not have STC coming to their communities.

STC, working together with its numerous private sector partners, provides services that are rated highly by its customers. The proportion of "good" and "excellent" ratings in our customer surveys reached 90 percent in 2007. While it is gratifying for STC to be rated so positively, we will continue to search out ways of maintaining and improving the quality of our services.

After 15 straight years of declines in passenger numbers, the numbers leveled off in 2004, and there were increases of 3.6 percent in both 2005 and 2006. In 2007, there was a slight decrease of 1.5 percent. Most of this decrease took place in the month of March when the passenger numbers were down compared to the exceptionally high numbers in March of 2006. Increasing prosperity, which allows more people to exercise a preference for use of their own vehicles, combined with rural

depopulation, pose significant challenges for STC to maintain and grow its customer volumes.

As I mingle with customers in our Regina depot from time to time, frequent mention is made of the new passenger depot, express terminal and head office facility. Without exception they are pleased with the artist renderings of the new facility and are looking forward to its completion. In this regard I am pleased to report that major progress was made on the construction throughout 2007, and that our current expectation is for the facilities to be ready for occupation and use by the end of summer 2008.

The new building will provide enhanced security and comfort, and a much more positive and attractive set of surroundings for customers. It will also provide a more functional workplace for employees and makes a positive contribution to the character of downtown Regina.

Beginning in the 2009 reporting period, Saskatchewan Crown corporations are required to implement a rigorous new set of standards for financial controls and reporting at all levels of their organizations. Because of the fact that the Chief Executive Officer and Chief Financial Officer of each Crown are required in due course to certify that these new standards have been implemented, the process of getting to the new standards is often referred to as "CEO/CFO Certification". With the assistance of consultants engaged by STC, significant progress has been made in this regard in 2007. The activities and functions of each area of the company are being examined and documented; policies are being written, confirmed or rewritten; and processes and procedures are being changed as necessary to meet the new control and reporting standards. The plan is to have this work completed in 2008, and for the new standards to apply for the 2009 reporting period.

STC's financial system software had become outdated and was also in danger of losing technical support from the software provider. In 2007, STC developed specifications for a new system and through a "request

for proposal" process selected new software along with professional technical support for its implementation. Nearly all the elements of the new system were put in place in 2007 and STC now has technical maintenance support secured well into the future.

STC operates a number of routes with insufficient passenger numbers and freight volumes to recover all its costs. Accordingly, a subsidy is required in order to allow the company to continue providing the service. In 2007, approval had been obtained for a subsidy of \$6 million. Largely because of close financial monitoring and the good fortune of some costs (fuel for example) being less than budgeted, the company required only \$5 million in subsidy.

From May 2006 to May 2007, STC operated all of its Saskatoon-based bus fleet on a two percent bio-diesel mixture. This pilot project accounted for slightly more than half of the fleet. STC had anticipated that the use of this mixture may improve fuel mileage and reduce engine wear. Results were inconclusive for both fuel economy and lubricity. In spite of these early results, in 2008 STC will expand the use of bio-diesel to all coaches fueled in Saskatoon and Regina (the majority of the fleet). This initiative recognizes the important benefits to the environment of the cleaner-burning of fuels, and the merit of supporting a local renewable energy industry. Outcomes will continue to be monitored.

STC will continue to do its best to provide quality services on the widest practical basis, and to do so as cost-effectively as possible.



Ray Clayton,
President and CEO

Mission Statement

STC offers our customers convenient, affordable, safe, courteous and reliable passenger and express transportation services. We contribute to the province's economic growth, demonstrate social responsibility to its citizens, and provide excellent value to our shareholders.



Vision Statement

We are Saskatchewan's standard for transporting people and goods. STC is your first choice; your best choice.

Corporate Values

At STC, we believe that it is important to adhere to the following values:

- Honesty in all business transactions, in dealing with our staff, in dealing with our customers and in dealing with our stakeholders
- Dependability, not only in our vehicle operations, but in all facets of the company's work
- Ensuring the safety of our customers and our employees
- Never accepting the status quo as the best possible outcome for our stakeholders; searching for innovative solutions to the problems which arise; and taking pride in our accomplishments, while admitting to our mistakes
- Developing a respectful work environment which offers opportunity for advancement to all employees
- Commitment to meeting all targets within our work units and within our corporation

Management Discussion and Analysis

This MD&A sets out the financial and operating highlights of the company's three main components – passenger service, freight operations and maintenance – along with the challenges they faced, how they were dealt with, opportunities, and the outlook for future operations.

Company Overview

In 2007, STC received an operating grant of \$5.0 million, which corresponds to a cash loss of about 23 percent of the company's total expenses for the year. Due to modest increases in revenues and efforts to minimize expenditures, this grant is \$1 million less than the grant that had been budgeted for the year. In 2006, the operating grant was \$4.0 million, or 19 percent of the company's total expenses.

Only two of STC's 28 bus routes have sufficient passenger numbers and freight volumes to generate the revenues required to cover all costs. As long as the mandate of STC remains to provide services on the widest possible basis, there will continue to be a need for a subsidy to cover part of its costs. One of STC's main responsibilities is to keep costs as low as possible and minimize the subsidy.

Passenger Services

STC has the bulk of the inter-city bus passenger business in Saskatchewan. Greyhound runs two routes through the province (along the TransCanada Highway and along the Yellowhead Highway). There are also a number of private sector carriers, which have interline and other contractual arrangements with STC, that serve specific areas of the province.

The company runs 28 routes in the province. The extent to which costs are recovered varies considerably from route to route. The company endeavours to match its bus fleet to passenger volumes on various routes. Accordingly, our units range in size from 15-seat vans to 55-seat coaches. Approximately 20 percent of STC's coaches are wheelchair-accessible.

In 2007, STC received a capital grant of \$1.9 million for regular capital programs from the Crown Investments Corporation of Saskatchewan. Of that, approximately 79 percent was designated for the purchase of new buses and freight trailers. As well, the company received an operating grant of \$5.0 million to cover a shortfall in revenues to meet operating costs.

A further capital grant of about \$13.65 million was received for costs associated with the new Regina passenger depot, freight terminal and head office facility.

In 2007, STC operated 3.1 million miles of scheduled bus service in the province, provided connections to 278 communities, and carried 272,826 passengers.

After about fifteen straight years of declines in ridership, passenger numbers stayed essentially the same in 2004 as in 2003; and in 2005 and 2006, the numbers grew by 3.6 percent in each year. Passenger numbers dropped in 2007 by 1.5 percent.

The company's cost per mile of carrying passengers was \$3.81, and the revenue per mile generated by passengers was \$2.41, resulting in an average subsidy of \$1.40 per mile.

There was only one significant change to scheduled services in 2007. As a result of adjustments to the schedule along the Saskatoon - Macklin - Unity route, eleven of the twelve communities along the route are serviced more frequently and operating costs were reduced.

In 2007, STC's revenues from passenger service were \$7,696,000, compared to \$7,452,000 the previous year. More than offsetting the impact of a 1.5 percent drop in passenger numbers was an increase of 5.15 percent in the mileage component of the passenger fare structure and a modest increase in charter revenues.

Operating expenses for passenger services were \$12,183,000, compared to \$11,329,000 in 2006.

STC continued its Youth Summer Excursion Pass in 2007. Four hundred passes were sold as part of the effort of STC to encourage youth to utilize bus transportation and build for its future.

In 2007, 1,068 Medical Passes were sold. The pass is available to persons who must travel frequently for medical reasons, and reflects the public service role of the company. It is sold for \$53.95 and allows unlimited travel for 30 days over STC identified Travel Corridors.

As well, the company continued its awareness advertising campaign aimed at specific market niches, and initiated an environmental theme, in an effort to grow and preserve its client base.

STC's strengths are that the company is well-known in the province, and it has a reputation for providing safe reliable and courteous service.

STC's main weakness derives from the trade-off between service frequency and costs. Frequency of service is limited on some routes with low passenger numbers in order to contain costs, but, in turn, this impacts negatively on the convenience of the service.

exist in attracting young people to bus service through the continuation of the Summer Youth Pass and the positive image and awareness that comes with the provision of charter services to the sports teams of the University of Regina and the University of Saskatchewan.

The main threats arise from the impacts on ridership of continuing rural depopulation, and the increasing prosperity in the province. With regard to the latter, the



The main opportunities arise from the impact of the increasing price of fuel on costs of operating private vehicles, and growing environmental consciousness of the people of Saskatchewan. There are opportunities for increasing passenger numbers through public communications strategies that remind people of the fact that greenhouse gas emissions can be reduced by utilizing the bus for more of their transportation needs.

Another opportunity arises from the enhanced image for the company that will come with the completion of the new Regina facility. The current Regina facility has had a negative impact on the attractiveness of bus travel for those who depart from or arrive at Regina. Other opportunities

"It feels great to know you're bringing people together for the hugs, the smiles..."

Henry Shirran, STC Driver



convenience of using private vehicles is very attractive. The increased financial capacity to own and operate private vehicles that comes with rising incomes and broader job opportunities poses a significant challenge to ridership.

The possibility of deregulation of the intercity bus industry in Canada is a threat to STC. Should passenger service be deregulated, the company would likely face competition from new entrants on its profitable routes, leaving STC to service the non-profitable routes, thereby further increasing the need for subsidization to preserve services.

Regulation or deregulation of the industry is a federal responsibility. While in 2004 and 2005 considerable work went into the examination of



possible deregulation, there has been no indication that the Government of Canada has taken any action on this file since that time.

STC's passenger operations account for 80 full-time in-scope and 11 part-time in-scope employees.

Parcel Express Services

STC operates its freight business in a fully-competitive environment. Other bus services, trucking firms and courier services, as well as Canada Post offer similar services in the province.

In addition to providing overnight depot-to-depot service, through contractual arrangements the company also provides a door-to-door pick-up and delivery service in the major centers.

Since its inception, STC has been in the freight hauling business, and will continue to be as long as it is operating buses. The buses have the capacity to carry freight as well

"STC is a vital link for rural communities and businesses."

Aaron Sylvester, STC Express Agent



as passengers. The revenues derived from freight significantly exceed the costs of the service, so it makes sense to continue the service.

In many rural communities in Saskatchewan, STC has long been the primary carrier of parcels for personal, business, medical, and farm usage.

STC has continued to equip some of its buses with trailers to carry additional freight, which allows the company to increase its freight hauling capacity and revenue-generating capabilities with only a minimal effect on expenditures.

Freight operations garnered \$7,123,000 in revenues for 2007, compared to \$6,932,000 in 2006. Expenditures were \$5,191,000, compared to \$4,877,000 the previous year. That meant a profit of \$1,932,000 compared to \$2,055,000 the previous year.

Due to the competitive nature of the freight business, STC has limited room within its tariff schedule for increases. However, there was a 5.0 percent increase in freight tariffs in 2007 to address rising operating costs.

STC's greatest strength in the freight business is the synergies it has with its passenger services. Since the buses are running on a large network anyway, with room to carry freight, any additional over-the-road costs to the company for carrying freight are minimal. With the addition of trailers to the buses, this becomes even more of an advantage.

Other strengths of the company are name recognition, its ability to provide next day delivery throughout much of the province, and its reputation for reliability. As well, it is one of the very few delivery systems in the province providing weekend service to many points in Saskatchewan.

STC is particularly well-equipped for the transportation of parcels in the one-pound to 30-pound range, which makes up approximately 80 percent of its freight business.

The main weakness in the freight operation is that schedules and frequencies are designed primarily to optimize services for the passenger side of the business, and not to meet the needs of freight customers. While this serves somewhat to the detriment of the freight service, STC's priority must rest with passenger service.

The main opportunity for STC's freight business lies in the continuation of its marketing and advertising efforts to ensure that, in the face of so many alternative suppliers of freight delivery services, STC continues to be recognized as a quality option.

The main threats to STC's express service are the existence of numerous private sector companies in the business, and their ability to focus exclusively on the needs of express customers.

The freight component of the business has 40 full-time in-scope and 17 part-time, in-scope, as well as four temporary in-scope employees.

Maintenance Services

STC operates two service garages in the province: one in Saskatoon and one in Regina. Since 2003, major maintenance work has been consolidated in the Saskatoon garage. The Regina facility still performs minor maintenance and servicing.

Traditionally, STC coaches have had a very high standard of maintenance, both in terms of mechanical reliability and cleanliness.

Because it has the capacity to do so, STC provides maintenance and cleaning services for a number of other bus companies. This has proven to be a good source of revenue for a number of years.

In 2007, maintenance services cost the company \$3,317,000 compared to \$3,081,000 in 2006. Performing

service for other operators brought in \$714,000 in revenues compared to \$660,000 in the previous year.

STC's maintenance strength is its staff, with their commitment to safety and quality work. Another area of strength is the relatively homogenous nature of its fleet, which allows for improved training and streamlining of the parts inventory. In the future, the use of the new fleet and inventory management system, which was installed in 2007, should further improve efficiencies in inventory management and fleet maintenance.

The maintenance operation has 28 full-time and eight part-time in-scope employees.

Other Revenues

In an effort to minimize the amount of subsidy STC requires to continue providing passenger services, the company looks to sources additional to its main lines of business to increase its revenues.

STC earns revenue through leasing out excess space in its Regina and Saskatoon facilities. In 2007, this activity accounted for revenues of \$194,500.

The company has been in the field of bus advertising since 1999. In 2007, revenues raised through bus advertising amounted to \$20,000, compared to \$21,000 the previous year.

STC has also had automated banking machines in its depots since 2001. The net revenues from this source amounted to \$18,800 in 2007, compared to \$12,000 in 2006.

STC operates a limited number of charters, currently amounting to about eight percent of its overall passenger services revenues. The operation of charters assists in better utilizing the bus fleet as most charters take place on the weekends when less maintenance activity is carried out. Charters also increase the visibility and positive image of the company. In particular, the charter service for athletics teams of the University of Saskatchewan and the University of Regina help with the image of STC among young people and helps build the future of bus travel.

STC tries to minimize any negative impact on private charter companies by ensuring its rates are somewhat higher than the norm; by ensuring that a profit is earned on every charter, thereby avoiding subsidized competition; and by not advertising charter services and only responding to requests. Requests for service that cannot be accommodated by STC are referred to private sector operators.

In 2007, the company operated 373 charters, resulting in revenues of \$614,000, compared with revenues of \$543,000 the previous year. The increase is partially due

to an increase in rates and partially because a driver shortage that basically brought a halt to Regina-based charters for the fall of 2006, was rectified in 2007.

The company will continue to evaluate potential partnerships and opportunities to earn non-traditional revenues in order to reduce its operating subsidy.



Human Resources and Labour Relations

STC management has had a good working relationship with its union, the Amalgamated Transit Union, Local 1374. In addition to the work of a number of formal union-management committees, in-scope and out-of-scope personnel work together cooperatively in addressing problems and opportunities. In 2007, STC was able to negotiate a new three-year collective bargaining agreement.

The recruitment and retention of motor coach operators and mechanics has become increasingly challenging. It has been even more difficult to fill positions requiring professional accountants. The latter has come at a difficult time considering the additional demands put on the company in regard to CEO/CFO certification and in the transition from Generally Accepted Accounting Principles (GAAP) to International Financial Reporting Standards (IFRS).

Professional development and safety training were areas of emphasis in 2007. With regard to the latter, 96 employees received training in First Aid and Cardio-Pulmonary Resuscitation, Transportation of Dangerous Goods, Defusing Hostility in the Workplace, Forklift Operator Training, Safe Lifting Practices and Anti-Harassment Training.



Information Systems

STC made significant investments in new software for both its Finance and Maintenance divisions in 2007.

The new financial management software, Microsoft Dynamics, will improve controls for the Finance Division with assurance of availability of technical support from its suppliers. The old software had become outdated and technical support from its supplier was in jeopardy.

STC also implemented and began using a new fleet management system in 2007. This system has a number of management tools which will allow for better fleet maintenance and inventory control. Furthermore, the statistical data that can be generated using the software will be of assistance when making long-term maintenance and acquisition decisions regarding STC's fleet.

Regina Facilities

In 2002, the company received the results of a facility audit conducted by the Canadian Human Rights Commission as part of an overall audit of the company's compliance with the *Employment Equity Act*. This audit found a number of significant deficiencies with the company's passenger depot in Regina, including such things as a lack of an elevator, and wheelchair accessible washrooms.

In order to bring the building up to the standards of the Act, significant changes were required.

After devoting significant time to examining possibilities and planning for a new structure, approval was given for



the construction of a new Regina passenger and freight depot and head office; and construction began in October of 2006.

During 2007, significant progress was made on the construction of the new facility. STC expects to move its Regina passenger, express, and head

"Every package means something to someone. We take special care."

Barry Davis, STC Express Agent

office operations to the new location in the summer of 2008. The sale of the existing facility was negotiated in 2007.

STC incurred expenses of \$25,000 in order to improve the structural integrity of the Regina garage in 2007.





Other Facilities

In addition to its Regina operations, STC has a garage in Saskatoon, and depots and express operations in Saskatoon, Prince Albert and Moose Jaw. All facilities receive regular insurance inspections. No large expenditures were made on maintenance of these facilities in 2007.

**"STC is all about
getting people where
they need to be."**

*Steven Petrychyn,
STC Agent, Lemberg Saskatchewan*



Environmental Impact

STC is committed to reducing its environmental footprint and the company has taken a number of steps in order to minimize its impact on the environment. The very existence of STC's passenger services is environmentally advantageous because of the number of private vehicles that it displaces from the highways of the province.

Additionally, in May 2006, the company launched a one-year trial under which approximately 50 percent of its fleet was run using a two percent bio-diesel mixture. The bio-diesel study, which ended in May 2007, was inconclusive with respect to appreciable gains in fuel efficiencies or engine wear. In 2008, all buses fueled in Saskatchewan and Regina (the vast majority of the fleet) will use the two percent bio-diesel mixture. This decision recognizes the environmental benefits of cleaner burning fuels, and the merits of supporting a local renewable energy industry.

In 2007, STC was in compliance with all relevant environmental statutes and regulations. STC has in place an approved dangerous goods handling policy and its fuel storage is up to code.

Financial Status

STC is subsidized by grant funding for its operations. The company remains debt free.

Capital grants received from Crown Investments Corporation of Saskatchewan (CIC) in 2007 were \$15.55 million, compared to \$4.25 million in 2006. About \$1.5 million of the capital grant received in 2007 was allocated to purchase fleet assets. A large portion (\$13.65 million) of the grant was directed toward costs associated with the new Regina facility.

In 2007, STC received \$5.0 million in operating grants from CIC to fund its operating losses.

STC anticipates that it will require \$7.0 million in operating grants for 2008. The increase in the grant is largely attributable to the increases in fuel, compensation, and increased costs related to the new Regina facility.

Because of its operating mandate to provide services on the widest possible basis, including the operation of routes with insufficient passenger numbers and freight volumes to recover costs, STC continues to incur yearly net cash losses. As a result, STC did not pay a dividend to CIC in 2007, and will not be in a position to pay one in 2008.



Public Policy and Financial Integration

The Saskatchewan Transportation Company is a Crown corporation of the Province of Saskatchewan, under the auspices of the Crown Investments Corporation of Saskatchewan, the province's holding company.

The CIC Board of Directors, who were all members of the Executive Council of Government, represents the interests of the ultimate stakeholders, the people of Saskatchewan. A Member of Executive Council had responsibility directly to the public for the operations of STC but did not sit on the CIC Board of Directors.

CIC, in consultation with the Crowns, has developed a long-term strategic plan and a method of evaluation.

The CIC strategic plan set out five objectives for a Crown corporation that are to be part of its business and strategic planning. The five objectives are:

- To exceed customer expectations for products and services.
- To help position the entire Crown sector to prosper.
- To provide a return to the people of Saskatchewan that justifies the shareholder risk and investment in the overall sector.
- To incorporate the Crown sector's mission into each corporation's mandate and role.
- To strive to balance accountability with each corporation's need to operate in a commercially competitive environment.
- To strive to ensure access to reasonably and competitively priced sector products and services on an equitable basis that might not otherwise be available to all or some of Saskatchewan's residents.
- To contribute to social, economic and environmental public policies of the Government of Saskatchewan, including: economic diversification and growth; representative workforces; skills training and development; technical innovation and development and environmental responsibility and stewardship.
- To align human resources processes and practices to best deal with emerging sector wide issues and to support achievement of individual Crown corporation strategies.

Financial Performance

A primary concern of STC is its financial performance. The corporation must ensure that the shareholders – the people of Saskatchewan – are getting the best possible value for the money invested.

Because STC's mandate is to provide services on as wide a basis as possible, and since most bus routes do not have sufficient passenger numbers or freight volumes to cover all costs, STC must receive a subsidy.

STC's financial performance is gauged by whether its costs, and its subsidy, are as low as possible and by the quality and magnitude of the services that are provided relative to the expenditures incurred.

Public Policy Objectives

Crown corporations are also expected to fulfill a number of public policy objectives which include: providing a public service which may not otherwise be available; providing a necessary service at the lowest possible cost to the consumer; providing employment and employment training opportunities; providing employment equity opportunities; promoting the growth of local businesses and the economy; promoting safe and harmonious workplaces; promoting technological awareness in the workforce; and providing stewardship of the environment.

Performance

Integration of the financial performance and public policy parameters of a Crown's business are set out in the Performance Management Document, a document drawn up each year by the Crown, in consultation with CIC.

This Performance Management Document forms the foundation on which a Crown corporation builds its annual strategic plan and annual business plan. In essence, the corporation designs its operations towards the fulfillment of the intent of the Performance Management Document.

The core of the Performance Management Document is the Balanced Scorecard, a reporting technique used to evaluate the Crown's success in achieving the goals it has set out.

This Balanced Scorecard, divided into sections that identify general purposes, is subdivided into various objectives, the measure to be used in determining how well the objective is achieved and the targets for the periods in question.

Management Responsibility for Reporting on Performance

Management has presented the performance information in the Balanced Scorecard so that it is, to the best of our ability, reliable (that is, reasonably free of errors or omissions and represents what it claims), consistent (that is, prepared using consistent policies and methods, explains significant variances, and reports results against previously approved targets), and understandable. To provide a better understanding of the information, management defined terms and calculations, and disclosed limitations.

Management has the primary responsibility for the integrity and objectivity of the performance information reported in the Balanced Scorecard. To fulfill this responsibility, the Company maintains appropriate systems of internal controls and procedures. These systems provide reasonable assurance that information presented is reliable and consistent.

On behalf of the Company, on March 22, 2008,

A handwritten signature in black ink, appearing to read "Ray Clayton". The signature is fluid and cursive, with the first name "Ray" and last name "Clayton" clearly distinguishable.

Ray Clayton, President & CEO

Balanced Scorecard

We Meet the Needs of Our Customers				
Objective	Measure	2007 Target	2007 Final	2008 Target
Our customers are satisfied with the service they receive	Customer satisfaction	86% good or excellent rating	87%	87% good or excellent rating
Our fares and discounts are competitive and satisfactory to our customers	Compared to Western Canadian average	+/- 0.5% to +/- 1%	+/- 0.5% to +/- 1%	+/- 1%
Our routes serve a significant number of our base rate cities	Number of routes waived Customer base served	31 M 27%	31 M 27%	31 M 28%
All of our customers deserve the most comfortable and hassle-free	Chairs equipped for wheelchair accessibility - (average of fleet)	27%	27%	27%

We Are A Good Corporate Citizen				
Objective	Measure	2007 Target	2007 Final	2008 Target
We support development of the local, national and international community	Top 500 charitable contributions	50%	310%	50%
We support the growth of the local economy	Community support Programs that create jobs and improve quality of life	100% of our employees 100%	100% of our employees 100%	100% of our employees 100%
We support the growth of the local economy	Programs that create jobs and improve quality of life	100% of our employees 100%	100% of our employees 100%	100% of our employees 100%

Balanced Scorecard

We Are A Fiscally Responsible and Accountable Company				
Objective	Measure	2007 Target	2007 Final	2008 Target
We keep our operating grant from the shareholder as low as possible	Operating grant as a percentage of overall expenditures	30%	23%	31.5%
We keep our operating costs as low as possible	Subsidy per mile	\$1.59	\$1.40	\$1.80
We meet or exceed all Board governance requirements	Comply with "Best Practices" for Board governance	Full Compliance	Compliance not complete	Full Compliance

We Are A High-Quality Employer				
Objective	Measure	2007 Target	2007 Final	2008 Target
We are an employer of choice in Saskatchewan	Employee satisfaction surveys (conducted every second year)	3% growth	4.86% growth	66% satisfaction rate
We work to promote a safe workplace	Employees who receive safety training in the workplace	40	96	50
We work to promote a safe workplace	Workplace safety records – decrease in lost time accidents	5%	33.3% increase	One less lost time accident
We believe in career enhancing training for our employees	Number of staff receiving technical training and/or professional development	50	202	50
We support creating job and career opportunities for youth and Aboriginal	Help develop career training opportunities in the bus passenger industry – number of opportunities pursued	1	3	2
We support development of a representative workforce in the province	Percentage from target groups in overall workforce:	Women 26%; Aboriginal 11%; Visible minority 3%; Persons with disabilities 10%	Women 23.9%; Aboriginal 11.8%; Visible minority 2.9%; Persons with disabilities 5.9%	Women 26%; Aboriginal 13%; Visible minority 3.5%; Persons with disabilities 10%

We Are Improving and Innovating

Objective	Measure	2007 Target	2007 Final	2008 Target
We believe in growing our business operations within the public sector	Total annual contracts entered into with other public agencies	3	6	3
We believe in growing our business operations within the private sector	Total agreements/partnerships with provincial attractions; other transportation services and/or private businesses	3	5	3
We strive to build our customer base and promote the company	Growth in passenger numbers, year over year	1%	-1.5%	0.5%

Explanation of Terms and Variances:

We Meet the Needs of Our Customers:

1. Customer satisfaction is the overall level of satisfaction our customers have with the service received while riding the bus. This information is obtained through passenger surveys and represents the total percentage of those who scored overall satisfaction as "good" or "excellent".
2. Comparison to the industry standard uses the western Canadian average fare, which is determined by the rates charged at the end of the year by Greyhound Canada in Manitoba, Saskatchewan, Alberta and British Columbia.
3. Minimum miles travelled are the number of miles on regularly-scheduled routes, plus overload services, but not including charter miles. Numbers are recorded cumulatively.
4. Communities served includes all communities with at least a flag-stop service, where STC is the primary provider of bus transportation service. It includes only those communities on bus routes (or where minimum deviation from the main route is required), but does not include communities close to, but not on, the designated routes.
5. Coaches equipped for wheelchair accessibility are coaches with built-in chair lifts, which are currently in service.

We Are A Good Corporate Citizen:

1. The Buy Saskatchewan measure includes all monies paid to Saskatchewan vendors through the accounts payable system, in addition to the commissions retained by agencies. The 2007 results are considerably higher than target because of the purchases associated with the construction of the new Regina facility.
2. "Green fuel" includes: the use of fuel that burns cleaner and produces fewer harmful emissions; in STC's case, bio-diesel fuel; Promoting bus travel as environmentally-friendly; baseline of public acceptance of the premise was established in 2007, and an advertising program was developed to support the premise.

We Are A Fiscally Responsible and Accountable Company:

1. Keep the operating grant from the shareholder as low as possible reflects the operating cash loss as a percentage of overall expenditures (excluding depreciation) for the year, to demonstrate how much the company relies on self-generated finances to perform its tasks, compared to grants.

Variance: The improvement from 30% to 23% is largely due to savings in fuel, wages and benefits, advertising, and agency commissions.

2. Subsidy per mile. This calculation is the net difference between the Passenger Expense per mile and Passenger Revenue per mile. Passenger Revenue per mile is calculated as the total Passenger Revenues per the monthly detailed financial statements divided by the total Scheduled Miles and Service Miles. Passenger Expense per mile is calculated as the total Passenger Expenses per the monthly detailed financial statements divided by the total Scheduled Miles and Service Miles).

Variance: The improvement from \$1.59 to \$1.40 is due largely to savings in fuel, wages and benefits, and advertising.

3. Meet or exceed all Board governance requirements is based on a list of best practices for Board Governance as defined by the Investment Bankers' Association of Canada, and measured against Board performance throughout the year, as well as approved Board Terms of Reference.

Variance: The independent directors did not hold regularly-scheduled meetings without the non-independent directors in attendance.

We Are A High Quality Employer:

1. An employer of choice. Our current employees are happy, and others seek us out. We measure employee contentment with a voluntary-return survey conducted every year.
2. Promote a safe workplace is measured by the number of employees each year who receive safety training, be it: CPR, proper lifting, hazardous material handling, first aid, anti-violence, anti-harassment, etc.
3. Lost-time accidents is measured where an accident leads to an employee being off work as accounted by accepted Workers Compensation Board (WCB) claims. Numbers are reported as a percentage increase or decrease in WCB claims at year end.

Variance: There were 18 such accidents in 2006 and 24 in 2007. Because of the small numbers involved, changes in numbers can result in large percentage changes.

4. Career-enhancing training for employees is measured by employees who receive technical training, such as customer service, skills upgrading, new technology training, etc. as well as professional development courses and seminars offered by learning institutions or recognized agencies such as the Conference Board of Canada.

Variance: There was a higher-than anticipated take-up in the attendance at seminars by staff.

5. Training opportunities within the company, aimed at building a future workforce in the bus, or related, industry this includes mostly Gradworks placements. Numbers are cumulative.

6. Percentage of representation in overall workforce – as defined in the federal *Employment Equity Act*. These definitions are similar to those used by the Saskatchewan Human Rights Commission, with one exception – the SHRC tracks women in non-traditional roles, while the federal standard is simply women in the workplace. STC is federally-regulated and must report its employment equity statistics to Human Resources and Social Development Canada. These numbers represent the overall percentage of employees from targeted groups in the overall STC workforce, excluding only casual employees, and are reported cumulatively.

Variance: The short-term target is to have 40% of new hires from the target groups, whereas for 2007 54.2% of new hires were from the target groups.

We Are Improving and Innovating:

1. Contracts with other agencies, such as the universities or the Saskatchewan Indian Gaming Authority to provide services or partner in the development of new services.
2. Partnerships with related industries, whether to improve the delivery of existing services or to develop new services in conjunction with these companies. Tourism industries such as casinos and excursion companies are a good example.
3. Building customer base is defined by the growth in passenger numbers using service, as measured on a year-over-year basis.

Variance: Although ridership dropped by 1.5%, 75% of this drop is accounted for in one month. The March 2007 numbers were down by 3,198 passengers in comparison with the unusually high numbers in March of 2006.

Passages

In the year 2007, the STC family lost some of its members. Some of these passages were a time of celebration, and some were a time of mourning. All took a little piece of the company with them.

Retirees:

Janet Abells, Executive Assistant, Regina, retired May 31, 2007 with 10 years of service.

Don Adilman, Mechanic, Saskatoon Garage, retired August 31, 2007 with 31.5 years of service.

Betty Andrusiak, Passenger Service Attendant, Regina, retired January 24, 2007, with 5 years of service and 16 previous years of service.

Allan Hodel, Customer Services Coordinator, Ticket Office, Regina, retired June 30, 2007 with 30 years of service.

James Lawrence, Motor Coach Operator, Saskatoon, retired October 11, 2007 with 32.5 years of service.

Don Lysitza, Motor Coach Operator, Saskatoon, retired January 2, 2007 with 25 years of service.

Betty McNeill, Passenger Service Attendant, Saskatoon, retired April 14, 2007 with 25 years of service.

Larry Olafson, Motor Coach Operator, Saskatoon, retired May 31, 2007 with 29 years of service.

Dave Younghusband, Motor Coach Operator, Regina, retired April 30, 2007 with 26 years of service.

In Memoriam:

Dennis McNeill, Motor Coach Operator, Saskatoon, passed away June 5, 2007.

Senior Management

Saskatchewan Transportation Company

Head Office:

2041 Hamilton Street
Regina, Saskatchewan
S4P 2E2
Phone: (306) 787-3347
www.stcbus.com

President and CEO	Ray Clayton
Chief Financial Officer	Shawn Grice
Senior Director Customer Services and Operations	Dean Madsen (Acting)
Director Human Resources and Labour Relations	Ingrid Reid
Director Communications and Strategic Planning	John Millar
Director Information Technology	Brad Dewald
Manager Business Development and Operations (South)	Dean Madsen
Manager Operations (North)	Harold Matthies
Manager Maintenance	Carl Clark

If you would like additional copies of this report, please contact Cheryl Matsalla at (306) 787-3347, or e-mail cmatsalla@stcbus.com.

This document can be viewed at the STC website: www.stcbus.com

Saskatchewan Transportation Company
Financial Statements
December 31, 2007

Management's Responsibility for Financial Reporting

Management has prepared the financial statements of the Company in accordance with Canadian generally accepted accounting principles. The financial data included elsewhere in this report is consistent with the financial statements and the underlying information from which the Company prepared these financial statements.

Management has the primary responsibility for the integrity and objectivity of the financial statements. To fulfil this responsibility, the Company maintains appropriate systems of internal controls, policies and procedures. These systems provide reasonable assurance that assets are safeguarded and that the books and records reflect the authorized transactions of the Company.

Meyers Norris Penny LLP, the Company's external auditors, have examined the December 31, 2007 financial statements, and their report follows.

The Board of Directors of Saskatchewan Transportation Company has examined and approved the statements.

On behalf of the Company,

A handwritten signature in black ink, appearing to read 'Ray Clayton', positioned above a horizontal line.

Ray Clayton
President & CEO

February 1, 2008

A handwritten signature in black ink, appearing to read 'Shawn Grice', positioned above a horizontal line.

Shawn Grice
Chief Financial Officer



MEYERS NORRIS PENNY LLP

Auditors' Report

To the Members of the Legislative Assembly Province of Saskatchewan

We have audited the statement of financial position of **Saskatchewan Transportation Company** as at December 31, 2007 and the statements of operations and comprehensive loss, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of Saskatchewan Transportation Company as at December 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Meyers Norris Penny LLP

Regina, Saskatchewan
February 1, 2008

Chartered Accountants

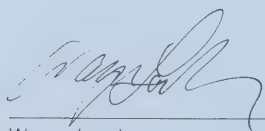
Saskatchewan Transportation Company Statement of Financial Position

As at December 31

	2007	2006
	<i>(Thousands of Dollars)</i>	
ASSETS		
Current		
Cash	\$ 1,617	\$ 1,788
Accounts receivable	2,047	1,546
Inventories	370	337
Prepaid expenses	438	162
	4,472	3,833
Property, plant and equipment <i>[note 6]</i>	34,548	20,501
	\$ 39,020	\$ 24,334
LIABILITIES AND PROVINCE'S EQUITY		
Current		
Accounts payable and accrued liabilities	3,896	3,024
Deferred capital grant <i>[note 7]</i>	24,874	11,020
Province of Saskatchewan's Equity		
Retained earnings	10,250	10,290
	\$ 39,020	\$ 24,334

See accompanying notes

On behalf of the Board



Wayne Lorch
Director



Jonathan Abrametz
Director

Saskatchewan Transportation Company Statement of Operations and Comprehensive Loss

Year ended December 31

	2007	2006
	(Thousands of Dollars)	
REVENUE		
Express services	\$ 7,123	\$ 6,932
Passenger services	7,696	7,452
Other revenues	1,163	1,082
Gain on disposal of property, plant and equipment	83	27
	16,065	15,493
EXPENSES		
Operating	17,807	16,630
Administration	3,033	2,827
Amortization	1,880	1,781
	22,720	21,238
Loss before the following	(6,655)	(5,745)
Operating grant [note 8]	5,000	4,000
Capital grant [note 7]	1,353	1,318
Loss before extraordinary item	(302)	(427)
Extraordinary item [note 13]	(81)	-
Net loss	(383)	(427)
Other comprehensive loss	-	-
Comprehensive loss	(383)	(427)

Statement of Retained Earnings

Year ended December 31

	2007	2006
	(Thousands of Dollars)	
Retained earnings, beginning of year	10,290	9,812
Net loss	(383)	(427)
Grant funding recognized related to purchase of land and related costs [note 7]	343	905
Retained earnings, end of year	\$ 10,250	\$ 10,290

See accompanying notes

3. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The significant policies are as follows:

Inventories

Inventories of vehicle parts and supplies are stated at the lower of average cost and replacement cost and are costed using the first-in, first-out (FIFO) method.

Property, Plant and Equipment

Property, plant and equipment is stated at cost less accumulated amortization. Assets held for sale are segregated and no longer amortized and are recorded at carrying amounts that approximates fair value. Expenditures for betterments, such as major refurbishment and structural repairs, are capitalized. Normal maintenance, such as engine and drive train repairs, mechanical repairs and preventative maintenance are expensed as incurred.

Operating Grant Revenue

Operating grants from CIC are recognized as revenue when received.

Capital Grant Revenue

Capital grants related to depreciable property are deferred as received and are recognized as revenue over the life of the asset. The Company recognizes a portion of the capital grant as revenue each year equivalent to the amount of amortization recognized on the assets acquired with the grant funds.

Capital grants related to the acquisition of land and related costs are recognized as a direct increase in retained earnings.

Revenue Recognition

Passenger and freight transportation revenue is generally recognized upon the completion of service. Interline passenger and freight transportation service is treated as being complete when the passenger or parcel is turned over to the connecting carrier.

Other revenues, including charter, space leasing, bus advertising, vending, and maintenance, are recognized when earned.

Amortization

Amortization is charged to income from the date assets are put into service and is recorded on the straight-line basis at rates designed to amortize the cost of property, plant and equipment over their estimated useful lives after considering salvage values.

Estimated useful lives are as follows:

Buildings	10 to 40 years
Vehicles	5 to 15 years
Other equipment	3 to 10 years

Management Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Accounts receivable are stated after evaluation as to their collectibility and an appropriate allowance for doubtful accounts is provided where considered necessary. Provisions are made for slow moving and obsolete inventory. Amortization is based on the estimated useful lives of property, plant and equipment. These estimates and assumptions are reviewed periodically and, as adjustments become necessary they are reported in earnings in the periods in which they become known.

Recent Accounting Pronouncements

Effective January 1, 2008, STC will be required to adopt the Canadian Institute of Chartered Accountants (CICA) handbook sections 3862 – Financial Instruments – Disclosures, and 3863 – Financial Instruments – Presentation. Section 3862 provides standards for disclosure of the risks arising from financial instruments to which STC is exposed, and how the risks are managed by STC. Section 3863 provides standards for the presentation of financial instruments and non-financial instrument derivatives. The Company does not expect the adoption of these new standards to have a material impact on its financial statements.

Effective January 1, 2008, STC will be required to adopt CICA handbook section 1535 – Capital Disclosures, which establishes standards for disclosing information about STC's capital (debt and equity) and how it is managed. Specifically, information should be disclosed to enable users of the financial statements to evaluate STC's objectives, policies and processes for managing capital. The Company does not expect the adoption of this new standard to have a material impact on the financial statements.

Effective January 1, 2008, STC will be required to adopt CICA handbook section 3031 – Inventories, which replaces corresponding Section 3030 and establishes new standards for the measurement and disclosure of inventories. The new Section prescribes that inventories should be measured at the lower of cost and net realizable value and provides guidance on the determination of cost. The Company does not expect the adoption of this new standard to have a material impact on its financial statements.

Long-lived assets

The Company performs impairment testing on long-lived assets held for use whenever events or changes in circumstances indicate that the carrying value of an asset, or group of assets, may not be recoverable. Impairment losses are recognized when undiscounted future cash flows from its use and disposal are less than the asset's carrying amount. Impairment is measured as the amount by which the asset's carrying value exceeds its fair value. Any impairment is included in net loss for the year. The amount of loss recorded is determined by deducting the asset's fair value (based on discounted cash flows from its use and disposition) from its carrying value.

Financial Instruments

STC classifies its financial instruments into one of the following categories: 1) held-for-trading, 2) held-to-maturity, 3) loans and receivables, 4) available-for-sale, and 5) other liabilities.

All financial instruments are measured at fair value upon initial recognition. Financial assets and liabilities classified as held-for-trading are subsequently measured at fair value with changes in fair value recognized in net income. Financial assets classified as available-for-sale are subsequently measured at fair value with changes in fair value recognized in other comprehensive income. Financial assets classified as held-to-maturity and loans and receivables as well as financial liabilities classified as other liabilities are subsequently measured at amortized cost using the effective interest method.

Cash is classified as held-for-trading and is measured at fair value with changes in fair value recognized in net income. Accounts receivable are classified as loans and receivables and are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities and are measured at amortized cost. These classifications had no impact on STC's financial statements at the time of adoption.

These standards also require STC to recognize and measure derivative instruments embedded in host contracts. STC selected January 1, 2003 as the transition date to apply fair value accounting for embedded derivatives. STC does not have any embedded derivatives in host contracts.

Transaction costs are included in the initial carrying amount of financial instruments except for held-for-trading instruments in which case the transaction costs are expensed as incurred. Financial assets purchased and sold, where the contract requires the asset to be delivered within an established time frame are recognized on a trade-date basis.

4. Financial Instruments and Risk Management

Fair Value

The Company as part of its operations carries a number of financial instruments which includes cash, accounts receivable, accounts payable and accrued liabilities. The carrying amount of STC's financial instruments approximates their fair value due to the short-term maturities of these items.

Credit Risk

The Company extends credit to its customers in the normal course of business and is exposed to credit risk in the event of non-performance by customers, but does not anticipate such non-performance. STC monitors the credit risk and credit rating of customers on a regular basis. The maximum credit risk is \$2.047 million (2006 – \$1.546 million), the fair value of the accounts receivable.

5. Changes in Accounting Policies

Effective January 1, 2007, STC adopted the following new accounting standards relating to financial instruments, as issued by the Canadian Institute of Chartered Accountants: Section 1530 – Comprehensive Income, Section 3251 – Equity, Section 3855 – Financial Instruments – Recognition and Measurement, Section 3861 – Financial Instruments – Presentation and Disclosure, Section 3865 – Hedges and Section 1506 – Accounting Changes. The following are the impacts of implementing these new standards prospectively in 2007.

Comprehensive Income

Section 1530 – Comprehensive Income establishes standards for reporting and displaying certain gains and losses, such as unrealized gains and losses related to cash flow hedges or available-for-sale financial assets, outside of net income, in a statement of comprehensive income (loss). STC does not have any items that required separate recognition outside of net income, and, as a result, the adoption of this section did not have any financial impact on STC's financial statements.

Hedges

Section 3865 – Hedges establishes standards on when and how hedge accounting may be applied. Hedge accounting under this section is optional. STC does not have any transactions which qualify for hedge accounting, so the adoption of this section did not have any impact on STC's financial statements.

Financial Instruments

Section 3855 – Financial Instruments – Recognition and Measurement establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. Section 3861 – Financial Instruments – Disclosure and Presentation discusses the presentation and disclosure of financial assets, financial liabilities and non – financial derivatives. Financial instruments are defined as a contractual right to either receive or deliver cash or another financial instrument to another party. The adoption of these standards did not have a significant impact on the financial statements.

Accounting Changes

Section 1506 – Accounting Changes allows for voluntary changes in accounting policy only if they result in the financial statements providing reliable and more relevant information and that new disclosures are required in respect of changes in accounting policies, changes in accounting estimates and correction of errors. The adoption of this standard has had no material impact on the financial statements.

Inventory

Effective June 1, 2007, STC changed its accounting policy for inventory costing to the first-in, first-out (FIFO) method as this better reflects the Company's actual inventory utilization. Prior to the change, STC costed inventory using the weighted average method. Prior period financial statements have not been restated to reflect this change in policy because the affects of the change are indeterminable. The cumulative effect in the current period of this change in accounting policy does not have a material effect on the financial statements.

6. Property, Plant and Equipment

	Cost	Accumulated Amortization	2007 Net Book Value	2006 Net Book Value
	<i>(Thousands of Dollars)</i>			
Land	\$ 5,262	\$ –	\$ 5,262	\$ 4,918
Buildings	26,878	6,787	20,091	6,771
Vehicles	15,555	7,713	7,842	7,954
Other equipment	4,978	3,625	1,353	858
	\$ 52,673	\$ 18,125	\$ 34,548	\$ 20,501
Assets held for sale	58	58	-	-
	\$ 52,731	\$ 18,183	\$ 34,548	\$ 20,501

At December 31, 2007, STC has assets that are no longer in service and are held for sale. The carrying amount of these assets approximates fair value and has been segregated above.

Capital expenditures incurred during the year totaling \$13.57 million [2006 - \$2.32 million] for costs related to the new Regina head office and depot are included in buildings. In total \$16.07 million has been spent on the construction of the new Regina head office and depot. These costs will not be amortized until the new facility is in use.

Capital expenditures incurred during the year totaling \$.34 million [2006 - \$.90 million] for costs related to the new Regina head office and depot are included in land. In total \$3.36 million has been spent on the land related to the new Regina head office and depot.

During the year STC completed a physical count of its assets. Those that were no longer in use were removed from our fixed asset listing with no impact to the net book value of property, plant and equipment in the financial statements.

7. Capital Grant

Order in Council #5/2007 authorized STC to obtain grant funding up to \$1.9 million for capital requirements not including capital requirements for 2007 related to the new Regina head office and depot. During the year, STC obtained \$1.9 million [2006 - \$1.5 million, Order in Council #930/2005] from CIC.

Orders in Council #568/2005, #906/2005 and #4/2007 authorized STC to obtain grant funding up to \$25.5 million for the acquisition of land and for construction costs related to the new Regina head office and depot. During the year, STC obtained \$13.65 million [2006 - \$2.75 million, 2005 - \$2.45 million] from CIC. The remaining \$6.65 million will be requested as needed during the new Regina head office and depot project.

Capital grants related to the acquisition of land and related costs are recognized as a direct increase in retained earnings.

Deferred capital grant consists of the following:

	2007	2006
	<i>(Thousands of Dollars)</i>	
Deferred capital grant, beginning of year	\$ 11,020	\$ 8,993
Capital grant received	1,900	1,500
Grant funding received for land improvements and for construction costs related to the new Regina head office and depot	13,650	2,750
Grant funding for land recognized	(343)	(905)
Capital grant revenue recognized	(1,353)	(1,318)
	\$ 24,874	\$ 11,020

8. Operating Grant

Order in Council #6/2007 authorized STC to obtain grant funding up to \$6.0 million for operating requirements in 2007. During the year, STC obtained \$5.0 million [2006- \$4.0 million, Order in Council #931/2005] from CIC.

9. Pension Plans

The Company participates in two pension plans. One is a defined benefit plan established pursuant to the Public Service Superannuation Act and administered by the Public Employees Benefits Agency. STC's contributions to this plan which were expensed during 2007 were \$27 thousand [2006 - \$29 thousand]. The other is the Capital Pension Plan which is a defined contribution plan sponsored by CIC. STC's contributions to this plan which were expensed in 2007 were \$553 thousand [2006 - \$497 thousand]. All eligible employees hired after September 1, 1980 are participants in the defined contribution plan.

The Company's financial obligation to each plan is limited to making regular payments to match the amounts contributed by the employees for current service.

10. Net Change In Non-Cash Working Capital

	2007	2006
	<i>(Thousands of Dollars)</i>	
Decrease (increase) in:		
Accounts receivable	\$ (501)	\$ 140
Inventories	(33)	16
Prepaid expenses	(276)	(58)
	\$ (810)	\$ 98
Increase (decrease) in:		
Accounts payable and accrued liabilities	872	641
Less: increase related to investing activities	(1,188)	(775)
Accounts payable and accrued liabilities related to operations	\$ (316)	\$ (134)
	\$ (1,126)	\$ (36)

11. Related Party Transactions

Included in these financial statements are transactions with various Saskatchewan Crown Corporations, departments, agencies and boards and commissions related to STC by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "related parties").

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. These transactions, and amounts outstanding at year end, are as follows:

	2007	2006
	<i>(Thousands of Dollars)</i>	
Accounts receivable	\$ 443	\$ 136
Accounts payable	73	105
Express services revenues	610	575
Other revenues	334	284
Passenger services revenues	208	195
Operating and administration expenses	1,647	1,451

In addition, STC pays Saskatchewan Provincial Sales Tax to the Saskatchewan Department of Finance on all its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other transactions and amounts due to and from related parties and the terms of settlement are described separately in these financial statements and the notes thereto.

12. Purchase Commitment

As of December 31, 2007, the Company has an outstanding commitment for \$5.5 million [2006 - \$17.9 million] related to the construction of the new Regina head office and depot.

13. Extraordinary Item

On December 31, 2007, one of the Company's 55 seat passenger coaches was destroyed by fire. The cause of the fire and the value of the insurance proceeds were undetermined at the date of completion of the financial statements. The company estimates the insurance proceeds at \$275 thousand. The unamortized cost of the coach as at December 31, 2007 is approximately \$356 thousand, resulting in an extraordinary loss of \$81 thousand.

14. Comparative Figures

Certain comparative figures have been reclassified to conform to the current year's financial statement presentation.

Route Map

STC Operated Passenger & Parcel Express Routes

Connecting/Contract Passenger & Freight Carriers

Connecting/Contract Freight Carriers Only



Points listed
subject to change
without notice

December, 2007
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